

Virtus Zevenbergen Innovative Growth Stock Fund

A: SAGAX (92837F318) | I: SCATX (92837F292) | R6: VZGRX (92837X640)

MARKET REVIEW: REVENGE ECONOMY

As the world pondered whether Q1 would mark the beginning of a “return to normal,” worries about long-dormant inflation (prompted by massive stimulus) suddenly gripped financial markets. Sales of U.S. Treasuries accelerated, pushing yields sharply higher and sparking a flight from high-growth stocks, especially those believed to be losing a pandemic edge as the economy reopens. Value stocks (with fortunes closely linked to an economic turnaround) beat growth by the widest margin in two decades. As sweatpants, screens, and microwaves replaced shopping, travel, and restaurants, U.S. consumers saved nearly \$1.5 trillion over the past year. With consumer confidence soaring on increased vaccinations and a fresh round of government stimulus, revenge spending is surging, boosting beneficiaries of the reflation trade.

After enjoying a year in the sun, the rotation to cyclicals punctured investor devotion to high growth. The sell-off in high-growth stocks could be considered a healthy reset. Yet, it is hard to observe the dichotomy between bullish management commentary/significant investment for the future and bearish stock price action without seeing opportunity. From a thematic perspective, the digital transformation is accelerating, technology’s addressable markets/dollars are expanding, and a recovery should only provide a tailwind.

PERFORMANCE

The Fund declined 7.81% (Class I) in the quarter, while the Russell 3000® Growth Index posted a modest gain of 1.19%. Some consumer discretionary (digital advertising platform, real-time software development platform) and technology issues (business communications) recorded bear market declines, while others deemed to be beneficiaries of an economic rebound (ride hailing services, online marketplace for lodging, mobile payment solutions) provided positive contributions.

Uber Technologies and Square were the largest performance contributors in the quarter.

- > Uber offers mobility and delivery services while continuing to partner and invest in freight and autonomous technologies. Ride-sharing is still largely underutilized and may see higher rates of adoption in a post-vaccine economy. Stay-at-home measures fueled robust food delivery, offsetting ride-share declines in Q4. Uber’s market-leading scale and reach promotes data and brand awareness, while recently announced bonus incentives should attract more drivers. Platform efficiencies provide additional opportunities for grocery, alcohol, and pharmacy delivery.
- > Commerce and consumer finance platform Square reported 141% year-over-year net revenue growth in the quarter, as reinvigorated mainstream interest in Bitcoin led to strong engagement for its Cash App digital payment service. Square also demonstrated success in serving merchants through its seller services (payment and inventory tools). Prospects of increased spending at physical retail following

the end of the pandemic bode well for Square over the next 6 to 12 months. Longer term, additional investments in Cash App, omnichannel solutions, and international markets could help Square become the go-to financial engine in the digital age.

The Trade Desk and RingCentral were the quarter’s largest performance detractors.

- > Advertisers continue to be attracted to The Trade Desk’s transparent, data-driven alternative to dominant search and social media companies. Its shares reflected uncertainty for ad tech companies, with Apple and Alphabet proposing changes ostensibly to protect consumer privacy. The Trade Desk has spent more than a year building and welcoming collaboration on its advanced cookie alternative in addition to forming retailer partnerships that unlock first-party data and new pockets of ad budgets. It’s still early days for Connected TV, where The Trade Desk can help advertisers trying to reach consumers anywhere they are.
- > Cloud communications company RingCentral accelerated revenue growth for the second quarter in a row and recorded increasing deal sizes with longer contract durations. Despite this, shares slid amid a general retreat from high-growth stocks as well as conservative guidance from management. Pandemic-induced changes to workforce arrangements and business continuity practices support the continued adoption of unified communications. Further traction with strategic distribution partners garnered over the last two years provide multi-year growth potential for installed seats and revenue.

PERSPECTIVE

At a certain point in the wee hours, it’s both late and early. For those who have been up all night, dawn is the signal things have gone far enough—or maybe too far. Among early risers, sunrise is a fresh start, offering a chance to get things done. Given the unprecedented gains in U.S. stocks over the past year and a 12-year secular bull market, investors with a cynical view have been trying in vain to predict when stock prices (especially growth) would start falling in earnest. The rapid rise in interest rates provided a subterfuge for selling, but in reality, some of the strongest periods of market performance have coincided with rising interest rates over the past few decades. (As much as higher rates are perceived threats, they are largely a function of earlier/stronger-than-expected economic recovery.) While there is no perfect historical comparison that can be used to lay out a roadmap for the future, we are reminded of a lesson learned from the pandemic: the world is rapidly changing. We are witnessing the dawn of a second wave of digital transformation sweeping many companies and industries as the key to future resilience and growth. The bigger risk may be overestimating the significance of negatives and underestimating the magnitude of positives.

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Zevenbergen Capital Investments LLC

PORTFOLIO MANAGERS



Nancy Zevenbergen, CFA, CIC
 Industry start date: 1981
 Start date as Fund Portfolio Manager: 2004



Brooke de Boutray, CFA, CIC
 Industry start date: 1982
 Start date as Fund Portfolio Manager: 2004



Leslie Tubbs, CFA, CIC
 Industry start date: 1994
 Start date as Fund Portfolio Manager: 2004



Joseph Dennison, CFA
 Industry start date: 2011
 Start date as Fund Portfolio Manager: 2015



Anthony Zackery, CFA
 Industry start date: 2011
 Start date as Fund Portfolio Manager: 2015

TOP TEN HOLDINGS

	% Fund
Tesla Inc.	7.71
Shopify Inc.	6.14
Exact Sciences Corp.	5.46
MercadoLibre Inc.	5.04
The Trade Desk Inc.	4.80
Square Inc.	4.50
NVIDIA Corp.	4.05
Zillow Group Inc.	4.00
Teladoc Health Inc.	3.84
Okta Inc.	3.69

Holdings are subject to change.

TOP FIVE CONTRIBUTORS % Contribution

Uber Technologies Inc.	0.24
Square Inc.	0.21
Sprout Social Inc.	0.17
Airbnb Inc.	0.16
NVIDIA Corp.	0.12

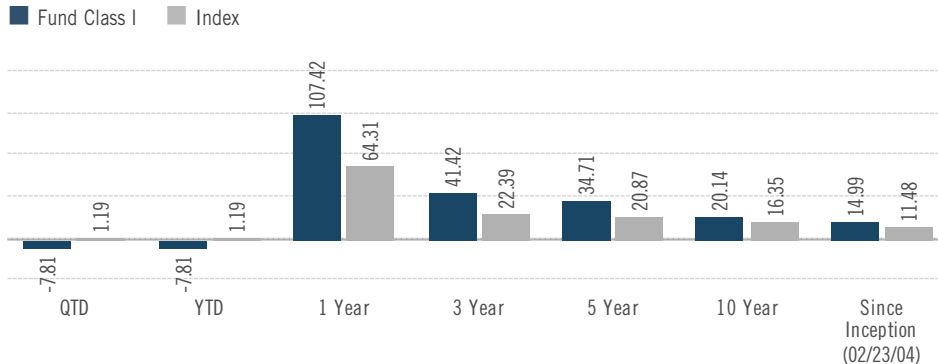
TOP FIVE DETRACTORS % Contribution

The Trade Desk Inc.	-0.95
RingCentral Inc.	-0.92
Unity Software Inc.	-0.86
Peloton Interactive Inc.	-0.76
Okta Inc.	-0.55

% Contribution: Absolute weighted contribution.

To obtain the top/bottom holdings calculation methodology, call 800-243-4361.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 03/31/21



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 1.11%. The net expense ratio is 1.00%, which reflects a contractual expense reimbursement in effect through 4/30/2022.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns.

Index: The **Russell 3000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Notes on Risk: Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Foreign Investing:** Investing in foreign securities subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Sector Focused Investing:** Events negatively affecting a particular market sector in which the portfolio focuses its investments may cause the value of the portfolio to decrease. **Limited Number of Investments:** Because the portfolio has a limited number of securities, it may be more susceptible to factors adversely affecting its securities than a portfolio with a greater number of securities. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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